



MEMORANDUM

To: William J. Mueller, Village President
Village Board of Trustees

From: David A. Hulseberg, Village Manager

Date: December 19, 2011

Subject: LPFC Request to Pay Debt Service Shortfall

The Lombard Public Facilities Corporation (LPFC) Board of Directors held its annual meeting on December 2, 2011. As part of this meeting, they discussed a shortfall for the Series 2005-A debt service payment due on January 1, 2012. As is their fiduciary responsibility, the LPFC requested that the Village pay any shortfall on the Series 2005-A bonds for the January 1, 2012 payment. A letter with this request from the LPFC President, Paul Powers, is attached as **Attachment A**. At the time this memo went out to the Village Board, the exact amount of the shortfall was not available as the Trustee (Amalgamated Bank of Chicago) was still waiting to receive an interest payment. However, the amount will be approximately \$911,747.94. Staff will receive the final amount prior to the December 27, 2011 Village Board meeting. Also at the LPFC annual meeting, the LPFC Board requested that the report prepared by the Asset Manager, MidAmerica Hotel Partners, be presented to the Village Board as part of the request to pay the debt service shortfall. This report is attached as **Attachment B**.

In mid-2009, staff began assessing the possibility that there would be shortfalls for debt service. It was apparent that the actual results of the hotel were falling significantly short of the original projections provided by HVS, as the economy continued to falter. It was at this point that the LPFC began looking at tendering the bonds to restructure the debt and the various management agreements. The LPFC began reaching out to the parties involved to discuss the restructuring. This process culminated in a tender offer being issued by the LPFC in March 2011. Unfortunately, the tender was not successful, as it appeared the investors felt that the economy, and more specifically the hospitality industry, would improve significantly in the near future. However, while the hospitality industry does continue to improve, it is doing so at a very slow pace. Because of the reduced cash flow of the LPFC available for debt service, there is now a shortfall in debt service on the Series 2005-A bonds for the January 1, 2012 payment. The first level of backstop for a shortfall on the Series 2005-A bonds is to request that the Village pay

this shortfall. This is the scenario the Village now faces. Essentially, there are two options: 1) the Village can appropriate for this shortfall; or 2) the Village can choose not to appropriate for this shortfall. If the Village chooses not to appropriate for this shortfall, the Series 2005-A Bonds will still be paid in full, as the next level of backstop is that the Series A Debt Service Reserve Fund will be drawn upon for the amount of the shortfall. If the Village chooses not to pay the shortfall, this has no impact on future requests, and only addresses the request for the Series 2005-A debt service shortfall.

As staff reviewed these options, it was decided to contract with Sikich LLP to seek an independent look at all of the information, and provide an independent recommendation on whether or not the Village should pay the debt service shortfall. The report provided by Sikich is attached as **Attachment C**. Based on the review of the information as outlined in their report, Sikich gave the following recommendation: "Based on the economic and financial merits ONLY of the situation, it is our opinion that the Village of Lombard should not appropriate money to support the current debt structure under the current covenants going forward." Mary O'Connor from Sikich will be in attendance at the Village Board meeting.

Myself and Director of Finance Tim Sexton have reviewed all of the information available regarding the LPFC and the current shortfall. At this time, it is our recommendation that the Village not appropriate for the Series 2005-A debt service shortfall due January 1, 2012, as there are sufficient funds in reserve to cover the current shortfall. Therefore, staff recommends that the Village not approve the attached budget ordinance amendment that would appropriate for the shortfall.